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C O N F I D E N T I A L QUITO 000321

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E.O. 12958: DECL: TEN YEARS  
TAGS: [PREL](#) [PGOV](#) [ETRD](#) [KDEM](#) [EC](#)  
SUBJECT: ECUADOR: PDAS SHAPIRO PROMOTES DEMOCRACY, TRADE  
REF: QUITO 106

Classified By: PolChief Erik Hall for reason 1.4 (b&d)

1. (C) Summary: WHA PDAS Charles Shapiro visited Quito January 18-20, meeting with President Alfredo Palacio, Foreign Minister Francisco Carrion, business leaders, the editorial board of Quito's daily of record, members of the political elite and civil society leaders. He also met with Governor Jeb Bush, in town to promote trade, the Embassy country team, junior and mid-level officers, the Embassy Democracy Promotion working group to encourage transformational diplomacy with Ecuador. Both government officials and indeed all audiences were receptive to PDAS Shapiro's message promoting democracy strengthening, political inclusion, and trade. Internally, PDAS Shapiro encouraged Embassy outreach to the lower classes, who will be key to the selection of Ecuador's next government at the polls in October. End Summary.

President Palacio's View on the Region, Morales  
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2. (C) In a January 19 meeting with visiting PDAS Shapiro, the Ambassador, Foreign Minister Carrion and ConOff (notetaker), President Palacio identified a tendency toward "modern" socialism in Latin America which he emphasized is still being defined. Minister Carrion, in his only comment during the meeting, preferred the term "realistic" socialism. Continuing, Palacio said Latin America seemed open to a system that embraces the "good" of traditional socialism (the emphasis on social welfare) and rejects the "bad" of traditional socialism (state regulation and authoritarianism). Palacio said the current trend toward the latter in parts of Latin America was worrisome and said strengthening democratic institutions in the region should be a priority. PDAS Shapiro emphasized that U.S. assistance and bilateral relations seek to help in this regard. Palacio responded that he believed those relations were excellent and expressed his own personal goodwill toward the U.S., dating from his years of medical training in Cleveland and St. Louis.

3. (C) Raising Bolivia, PDAS Shapiro said the USG recognizes the historic significance of the democratic election of indigenous leader Evo Morales. We are concerned about Morales' stance on issues such as coca eradication, but hopeful about being able to work with the new government on a range of issues. Palacio said that if Morales does not deliver on his promises, he will lose his footing. He drew distinctions between Ecuador and Bolivia, claiming that no "leftist cults" exist in Ecuador. On trade, he noted that, unlike Ecuador, Bolivia has little beyond natural gas to

trade with the U.S.

#### FTA: Palacio Against Linking Oxy

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14. (C) Referring to his background as a medical doctor, Palacio said with respect to the FTA his philosophy would be "first do no harm." He acknowledged "insignificant technical" obstacles to signing an FTA with the U.S., such as rice, chicken and IPR, but emphasized that all could be resolved through negotiation. PDAS Shapiro described the Occidental Petroleum commercial dispute as a real problem in terms of attracting more investment in the severely underdeveloped oil sector in Ecuador. The Ambassador emphasized the importance of resolving the problem, suggesting that negotiations between the company and the government be revitalized.

15. (C) Palacio did not disagree, but expressed frustration over USG linkage of resolution of the Oxy case with the FTA, causing him political problems at home. Palacio said it was absolutely necessary to have a solution that is both politically and economically acceptable, adding that Oxy must recognize its errors. He expressed continued confidence in the GOE's current Oxy negotiators, PetroEcuador president Luis Roman, and Energy Minister Ivan Rodriguez. Palacio referred to a "back door" proposal he made suggesting Oxy assume of some of Ecuador's long term debt as part of the settlement. Oxy had rejected the proposal without due consideration, he noted ruefully. (Actually, Palacio's own advisors have told him the proposal was illegal and unworkable. See reftel.)

#### Palacio Upbeat on Relations with Colombia

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16. (C) Palacio's mood immediately improved when discussing relations with Colombia. Asked about his January 16 visit to Bogota, Palacio effusively praised President Uribe and the cooperation he received on problems with the border. He described relations with Colombia as "great." However, Palacio also expressed concern over the increase in drug trafficking in Ecuador, and the possibility of narcotics money entering politics in Ecuador in this year's political campaign.

#### Foreign Minister on Democracy and Threats

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17. (SBU) PDAS Shapiro, accompanied by the Ambassador and PolOff (notetaker), met with Foreign Minister Francisco Carrion to discuss Ecuadorian democracy and multilateral issues in more detail later on January 19. The Ambassador commended the GOE for re-establishing a credible Supreme Court. That success, Carrion said, was achieved with significant international support. PDAS Shapiro noted the need for an effective justice system at the lower levels; strong institutions are the backbone of democracy. Carrion agreed, saying Ecuador must do more to strengthen its democratic institutions.

18. (C) Carrion echoed Palacio's concern about the shifting political climate in Latin America. The GOE maintains positive relations with Caracas, he said, but is concerned that Chavez' economic intervention in the region has enhanced his influence and is dangerous to regional stability. Carrion also expressed GOE concern over the deteriorating relationship between Caracas and Lima, but worried that Peru's decision to recall its ambassador had been precipitous. Carrion said that despite the bilateral flap, he believed Humala would lose his bid for the Peruvian presidency. Shapiro asked for GOE support in blocking Venezuela's bid to represent GRULAC on the UNSC, adding that the GOV would almost certainly become obstructionist. Carrion said the GOE is aware of the issue and is formulating its position.

Evo Morales Another Story

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¶9. (C) Carrion commended the U.S. for maintaining communication with both Chavez and Morales, adding that international support is key for encouraging a more responsible leftist government in Bolivia, like Brazil and Chile. Carrion said he believes Morales will be a much more pragmatic leader than Chavez. However, he expressed GOE concern that Morales could suffer the same fate as deposed ex-president Gutierrez, who also took office as a populist political "outsider."

An Ear-full on Plan Colombia  
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¶10. (C) Carrion lamented at length the impact of Plan Colombia on Ecuador. Bogota's success has pushed narco-trafficking and illegal armed group activity into Ecuador. The Colombian refugee burden on Ecuador has sharply increased and that Bogota and the U.S. have been slow to recognize the negative impacts on Ecuador. The GOE is concerned that Colombian mobile units are insufficient to safeguard the Ecuador-Colombia border. Shapiro stressed the importance of continued communication with Colombia. Carrion said relations with Colombia are rapidly improving and that the recent meeting between the Ministers of Defense was very positive. The Ambassador reminded Carrion that the U.S. has made substantial investments to offset Plan Colombia's impact on Ecuador, noting USAID's extensive development programs in the region.

Migration, FTA  
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¶11. (C) Carrion expressed GOE concern over the Sensenbrenner immigration reform bill. Shapiro reminded the FM that the proposal is not law and is a congressional proposal. He added that the U.S. has a responsibility to control its borders, and that the President's plan seeks to make more legal immigration options available to those who seek work in the United States. Carrion said the tone of the proposed legislation could fuel already growing anti-American sentiment in Latin America, and suggested that the U.S. look for new ways to "sell" its ideas to a disgruntled region.

¶12. (C) Shapiro told Carrion that the U.S. is very concerned about explaining the benefits of the FTA and other U.S. initiatives in language that average Ecuadorians can understand. The Ambassador and PDAS Shapiro urged the GOE to help get the FTA message across to Ecuadorians. Carrion welcomed USG plans to reach average Ecuadorians, saying the issue of the FTA had become politicized in Ecuador, and that many Ecuadorians do not have a basic understanding of what it represents for Ecuador. He believed Ecuadorians could be convinced of those benefits, especially if the U.S. could be more flexible with Ecuador on key issues under negotiation. PDAS Shapiro replied that USTR controls the substance of FTA negotiations.

FM: Extraditions, IAEA, TIP  
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¶13. (C) Carrion requested U.S. assistance deporting or extraditing to Ecuador at least ten individuals facing corruption charges in Ecuador. The PDAS agreed to look into the cases, but reminded Carrion that the DOJ needs sufficient evidence to approve an extradition request.

¶14. (C) PDAS Shapiro raised USG concerns over Iran's recent actions, noting the EU3 had requested an IAEA Board meeting for February 2. The U.S. supported referral of Iran to the Security Council, he said, and hoped the GOE would do the same. Carrion said that the GOE was aware of Iran's irresponsible behavior and that the GOE is considering its position on the issue.

¶15. (C) The Ambassador inquired about GOE efforts to combat trafficking in persons (TIP). Carrion said President Palacio

supports the effort, and had recently named a senior advisor as coordinator of GOE efforts.

#### Business Sector Leaders Pessimistic Lot

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¶16. (C) PDAS Shapiro, Ambassador, DCM and EconOff lunched on January 19 with key FTA stakeholders including lead GOE FTA negotiator Manuel Chiriboga; Alberto Dassum, Pres. of the Guayaquil Chamber of Industries; Mauricio Pareja, Central Bank of Ecuador General Manager; Mauricio Pozo, former Minister of Economy and consultant; and Cesar Rohon, Pres. of the National Fisheries Chamber. PDAS Shapiro encouraged resolution of outstanding commercial disputes, including Occidental Petroleum, and updating labor protections to enhance chances for U.S. Congressional ratification of the FTA. The businessmen were generally concerned about prospects for Ecuadorian Congressional approval of the FTA, and pessimistic about the next government, regardless who wins. Political fragmentation is likely to paralyze the next government and undermine its stability, they said. On economic matters, Rohon expressed frustration about USTR resistance to consider formulas to provide greater opening for Ecuadorian tuna. Chriboga reported some progress toward reforming the antiquated labor code. Dassum criticized worker benefits in the current labor code.

#### Political Elite, Civil Society Mix it Up, if not Mingle

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¶17. (C) The Ambassador hosted a reception at her residence in honor of PDAS Shapiro, attended by over thirty government officials, members of Congress, and civil society members, including Defense Minister Oswaldo Jarrin, Government Minister Alfredo Castillo, President of Congress Wilfredo Lucero, a member of the Supreme Court, NGO leaders, and several media owners. Jarrin said his recent meeting in Bogota with his Colombian counterpart had been a great success in increasing cross-border coordination and communication. Castillo was cordial to US officials, while expressing the need for new USG and IMF policy approaches for Latin America. A group of Congressional party leaders huddled tightly across the room, seething over Castillo's ongoing war of words against Congress, and blaming Castillo for "fanning the winds of dissent" and ongoing violent student protests in Quito by hinting at a bus fare rise.

#### Press Coverage Neutral

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¶18. (U) PDAS Shapiro met with the editorial board of Quito's daily of record, "El Comercio" on January 19 to promote democratic practices, emphasize the importance of political inclusion, promote open economies and trade as a vehicle to reduce poverty. He also expressed USG views on the election of Evo Morales in Bolivia and had a frank exchange of views on regional issues. In its article on the visit published January 20, "El Comercio" characterized the PDAS Shapiro's trip as his taking the pulse of the relations between the US and the countries of Latin America. Guayaquil's daily of record "El Universo" quoted sources as saying that the the discussions between President Palacio and PDAS Shapiro focused on Andean Free Trade negotiations and counterdrug cooperation. Other media coverage was largely based on the biodata provided in a press release distributed by PAS which characterized the visit as an opportunity for PDAS Shapiro to dialogue with a variety of Ecuadorian government officials and members of civil society and exchange views.

#### Internal Embassy Meetings

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¶19. (C) The PDAS encouraged the Embassy Country Team and Democracy Working Group to engage more with the lowest levels of society, who by virtue of their numbers, will select Ecuador's next government at the polls in October. Internal discussions raised the question of whether Ecuador's recent experience of electing a former military coup leader whose

government failed may provide some level of immunization against popular support for a new populist outsider. However, populist candidates here are not the exception but the norm. Ex-Finance Minister Rafael Correa, running as a brash leftist "outsider" with academic and government credentials, could easily gather steam. Although Gutierrez was brought down by the middle and upper classes, effective Embassy outreach to the lowest classes could conceivably help blunt the appeal of anti-American candidates.

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